Calendar No. 201

100TH CONGRESS
1st Session

SENATE

REPORT
100-84

THE SMALL BUSINESS INTERNATIONAL TRADE AND COMPETITION ENHANCEMENT ACT

JUNE 23, 1987.—Ordered to be printed

Mr. BUMPERS, from the Committee on Small Business, submitted the following

REPORT

[To accompany S. 1344]

The Committee on Small Business to which was referred the bill (S. 1344) to amend the Small Business Act to enhance the ability of small businesses to compete for international export markets, and for other purposes, having considered the same, reports favorably thereon with an amendment in the nature of a substitute and recommends that the bill as amended do pass.

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I. Summary and Purpose

S. 1344, the "Small Business International Trade and Competition Enhancement Act," amends the Small Business Act to increase the access of small businesses to existing export promotion programs and provide for the creation of new and innovative export promotion and technology transfer programs at the Federal, state and local levels. The Act will also increase the availability of long-term capital for small businesses through increases in loan limits for both the Section 7(a) guaranteed loans and Section 504 economic developmemt loans.

The bill was introduced by Senator Sasser on June 9, 1987, and was marked up and ordered reported favorably by the Committee on Small Business on June 11.

The major points are as follows:

(1) S. 1344 provides increased authority and direction for the Small Business Administration Office of International Trade. The small business person should be able to find technical expertise, either directly from SBA or through one of its grantees, which could literally walk the business person through the maze of existing exporting programs, including financing, export licensing, marketing, overseas insurance, and so forth. Three and a half million dollars would be authorized for the SBA Office of International Trade to perform the functions outlined in the bill.

(2) The bill creates Small Business Export Assistance Centers funded through grants or cooperative agreements by SBA. It is expected that the program would be modeled on successful programs presently in operation in certain Small Business Development Centers and that SBDC's would be prime, though not exclusive, candidates for funding. Other entities such as economic development districts, state agencies or local chambers of commerce, would also be eligible to apply for funding as Small Business Export Assistance Centers. Five million dollars is authorized for this program in FY 1988, with $10.0 million in fiscal 1989 and 1990.

(3) This legislation increases the statutory loan limit for Section 7(a) guaranteed loans and Section 504 development loans from $500,000 to $750,000. These limits have not been changed in over a decade.

(4) The bill requires that SBA prepare reports on policy options for simplified export licensing procedures and expedited trade remedies procedures for small business.

(5) The bill also requires that SBA conduct a National Conference on Small Business Exporting in 1988.

(6) S. 1344 expresses the sense of the Congress language that the Administrator of SBA should be consulted in any new round of GATT negotiations and that the U.S. Trade Representative should have on his staff a full-time assistant for small business.

II. History of the Legislation

The Export Expansion Subcommittee of the Senate Small Business Committee held hearings on small business export-related issues on April 29 and April 30, 1987. These hearings reflected an increasing interest by the small business community in international trade as indicated also by the 1986 White House Conference on Small Business. Nine of the Conference's 60 final recommendations concerned international trade.

In the Subcommittee hearings, testimony was heard from several representatives of the Administration including the Honorable James Abdnor, Administrator of the SBA; Mr. Bruce Smart, Undersecretary for International Trade in the Department of Commerce; Mr. Frank Swain, Chief Counsel of the Office of Advocacy of the SBA; Mr. William Ryan, First Vice President and Vice Chairman of the Board of Directors of the Export-Import Bank of the United States; and Mr. L. Ebersole Gaines, Executive Vice President of the Overseas Private Investment Corporation. Also appearing before the Committee were representatives of several Small Business Development Centers, including Mr. Gregg Higgins, State Coordinator of the SBDC of Florida; and Mr. Brian K. Davis, Associate Director of the Alabama International Trade Center. Several other individuals who are directly involved in small business exporting were asked to testify, including Mr. Gordon Johnson, President of Johnson Associates, Mr. Roger Little, President of the Spire Corporation; Mr. Tom Watson, Chairman and Managing Partner of Watson & Rice; and Mr. Robert Shockey of the Chapman Chemical Company of Memphis, Tennessee. Also appearing were Dr. Mitchell Wallerstein of the National Academy of Sciences and Mr. Jim Lemunyon of the American Electronics Association.

During these hearings, the Subcommittee solicited comments from the Administration, the SBDC representatives and other witnesses regarding the Small Business Title to the Trade and International Economic Policy Reform Act of 1987, H.R. 3, referred to hereafter as the House Omnibus Trade Bill. Following the Subcommittee's hearings, further meetings between Committee staff and representatives of the aforementioned groups were held to clarify the issues raised by the House bill. A draft of the bill which became S. 1344 was pepared based on the House-initiated Small Business Title to the Omnibus Trade bill and the ideas presented in two days of hearings. Subsequent modifications were made to take into account the suggestions made by representatives of the SBDC network, the Small Business Administration, the Department of Commerce and other interested parties.

Following extensive consultations between both minority and majority staff members from the Committee, S. 1344 was introduced on June 9, 1987, by Senator Sasser joined by Senators Bumpers, Weicker, Boren and Kerry as original cosponsors. The full Committee voted to report S. 1344 favorably to the Senate on June 11, 1987, by a vote of 18–0.

III. Discussion

A. BACKGROUND ON INTERNATIONAL TRADE

The economy of the United States has rapidly become integrated into the international marketplace. It is clear that international competition can no longer be ignored, either in the international market or in the U.S. market. Increasingly, the prosperity of American businesses and that of the U.S. economy as a whole is determined by the ability of U.S. firms to compete against well organized and aggressive foreign firms which often have substantial support from their governments in the form of aggressive export marketing programs.

Unfortunately, this intensified competition has exposed the vulnerability of many U.S. businesses, which are unaccustomed to fighting to preserve domestic markets for their goods and which had seen little need to enter foreign markets because of our own large markets. Many U.S. firms, and government agencies as well, had assumed that they could preserve their share of the U.S. market without competing for a share of the international market. Others had neglected quality control, customer service and basic research, thereby encouraging the public perception that foreign technology and quality are superior in many cases. Moreover, the debt crisis in lesser developed nations has forced cutbacks in purchases of our goods abroad and resulted in increased emphasis on exports to the U.S. to earn dollars with which to repay these debts. At the same time, the macroeconomic policy of the Federal government since 1981, including high interest rates and enormous federal deficits, led to an overvaluation of the U.S. dollar, putting U.S. firms at a severe disadvantage in world markets, while comparable foreign goods were made even cheaper for American consumers.

The record U.S. trade deficits in recent years are symptoms of these changing realities. The United States enjoyed a trade surplus as recently as 1975. In 1981, the U.S. had a trade deficit of $39.7 billion. In 1982, that deficit rose to $42.7 billion; in 1983 to $69.4 billion; in 1984 to $123.3 billion; in 1985 to $148.5 billion and in 1986 to $169.8—each a new record. In the last five years, the United States has run trade deficits totaling $553.7 billion, an unprecedented sum.

There is no single cause of the trade deficit and there is no single solution. In large measure, the changes that must be made in the boardrooms and on the factory floor by managers and employees. They include readjustments in corporate attitudes regarding long-term planning and quality control versus short-term profits, as well as employees' pride in craftsmanship and sense of participation in the life of the business. These changes cannot be legislated, regulated or financed by government.

However, changes in government policy can have a positive impact. Efforts to resolve the debt crisis can reopen markets in less developed nations and reduce pressures for exporting to the U.S. Certainly the effort to bring the value of the U.S. dollar back into line can help U.S. firms compete in pricing their goods and services. Economic policies within firms also can be helpful and American managers can learn much from the successes of their counter-

parts both in Asia and Europe. These policies alone may not make a decisive difference, but they will make a positive contribution.

It is clear that the Congress and the Nation must take action to regain a competitive edge in international trade. The trade deficits are as serious threats to our economic future as are our Federal budget deficits. Failing to meet foreign competition and to reduce the trade deficits will have dire consequences for our standard of living and for the viability of our manufacturing industrial base which remains, in the last analysis, the foundation of national security.

(B) SMALL BUSINESS TRADE ISSUES

Small businesses in particular have concentrated on the domestic market, and most have not as yet taken advantage of the opportunities offered as exporters. The strength of small businesses in generating employment and innovation, however, indicates that small businesses can become successful competitors in the international marketplace if and when they shift their focus.

In absolute numbers, many small businesses are exporters but their exports are not large in quantity. According to the U.S. Department of Commerce, only an estimated 30,000 out of a total of 376,000 manufacturing companies (eight percent) were exporting their products in 1983. Of these 30,000 exporters, 70% were small or medium-sized firms with fewer than 500 employees, but the bulk of the goods exported (fully 70%) came from 100 larger-sized firms. The remaining 92% of the manufacturing firms did not export to any significant extent.

Clearly there are many other small firms which are capable of exporting. Indeed, in 1978 the Department of Commerce estimated that an additional 18,000 firms, most of them small businesses, were capable of exporting. In 1983, the General Accounting Office estimated that firms with 250 or fewer employees which did not export could generate exports of $4.2 billion annually. There is a great potential for small businesses to close the trade deficit gap for their own benefit and that of the Nation as a whole.

There are, however, many good reasons why small businesses have been slow to enter the export market. Becoming an exporter involves costs and risks which can be borne more easily by a larger business. Small firms must set priorities and, as with most larger businesses, the U.S. domestic market has in the past offered enough opportunities and challenges. It is difficult enough for a firm to succeed in a domestic market, and even more difficult to do so in a distant foreign market.

Small firms should be encouraged by Federal policy to explore export markets. The strengths of small businesses in the domestic market—flexibility, innovation, quality and adaptability—are also strengths in the international marketplace. The Small Business Administration has found that "the resilience and diversity of the Nation's small businesses can make an important contribution to the growth of the U.S. share of world trade," and the Committee agrees with this assessment. However, the Committee believes that the Small Business Administration needs both additional resources and direction from Congress to assist small businesses in reaching

their potential as exporters. S. 1344 was drafted and reported by the Committee with the affirmative goal of broadening opportunities for small business exporting by sensible and affordable Federal policies to assist those businesses in finding foreign markets.

IV. Provisions of the Bill

The provisions of this bill have been aimed primarily at utilizing existing structures and programs to promote small business participation in international trade. Based on two hearings in the Senate Small Business Committee's Subcommittee on Export Expansion, the House Small Business Committee's Title reported in the Omnibus Trade Bill, H.R. 3, informal input from representatives of the Small Business Administration, the Department of Commerce and the Small Business Development Center network, S. 1344 takes into account the interests of the various groups concerned and puts forth postive measures aimed at increasing small business activity in the international arena. From discussions with those involved in small business and exporting, it has become apparent to the members of the Committee that there exist present structures and networks capable of assisting small business in developing its exporting potential, particularly in furthering the Federal role in technology transfer, facilitating capital formation, and in disseminating information on Federal, state and local programs. However, it is apparent that these existing structures are generally not well known or well utilized by small businesses. Much more must be done to educate small business owners and managers about existing Federal, state and private programs and policies.

There was even some concern that the provisions of this bill may be duplicative of current programs operated by Department of Commerce (DOC). In response to such suggestions, the Committee has gone to great lengths to accommodate the Administration's comments and requests. In an amendment offered by Senator Weicker and accepted unanimously, the Committee acknowledges the leading role of the Department of Commerce in international trade matters. The Committee in drafting this legislation has stressed the rule of SBA-related entities in enhancing DOC's existing programs and marketing those programs at a grassroots level through SBA's extensive local network, in no small measure because of the Committee's lack of confidence in the presently existing Commerce delivery system and its ability to address the concerns of the Nation's 14,000,000 small businesses on a daily basis. The Committee is, however, more optimistic that SBA and DOC will be in a better position to work together on international trade issues since the agencies' heads have recently signed a Memorandum of Understanding (MOU) outlining each organization's respective role in trade promotion.

The MOU will, the Committee hopes, help in avoiding unnecessary "turf wars", resolving local conflicts, and that it will facilitate cooperation between the two agencies. The Committee sees this as a positive step forward in interagency cooperation. However, Administrator Abdnor has assured the Committee that the SBA and DOC will work to move beyond the general understanding and set specific goals for applying the concepts of the agreement. In a May

20, 1987, letter to the Committee Chairman, SBA Administrator James Abdnor said, "After discussion with Commerce we will develop mutually agreeable specific goals and these goals will be adopted by the SBA. This is expected to be accomplished by mid-July. During FY 88 these goals will be included in individual performance criteria as well as in formal Agency reviews." The Committee will monitor the developments of this situation with careful scrutiny, especially since the Department of Commerce failed to respond to questions from the Committee on this same issue.

A. CHANGES IN EXISTING SBA INTERNATIONAL TRADE OFFICE

The Small Business International Trade and Competition Enhancement Act expands the mandate of the existing Office of International Trade (OIT) within the Small Business Administration (SBA). This legislation provides increased budget authority for trade-related activities and a greater sense of direction for the OIT. On March 24, 1987, Michael E. Deegan, Director of OIT addressed the International Trade Committee of the SBA National Advisory Council. Deegan concluded in his address that, currently, SBA has inadequate outreach to small business exporters and poor coordination with other Federal agencies charged with small business trade outreach. The Committee agrees with this assessment and has, in cooperation with the Administration, formulated S. 1344 to address the needs of small business through better utilization of existing programs and structures. The Committee is hereby recommending that an additional $3.5 million be provided to the Office to carry out the objectives of this legislation.

The legislation mandates the Office of International Trade to take a more aggressive approach to export promotion, working with other Federal agencies and local and State programs to develop small business participation in international trade. Specifically, the OIT shall work with the aforementioned entities to disseminate information on existing trade promotion, finance, trade adjustment and related programs to small business through all SBA resources, and particularly the Small Business Development Center and Small Business Export Assistance Center networks. The legislation mandates an active role for the OIT, which is in keeping with the Administrator's agenda as relayed to the Committee on April 29, 1987. The Committee expects the Office to prepare informational publications, conduct public meetings and seminars, provide individual business counseling, and to hire and train staff as necessary to implement these crucial legislative goals.

Expansion of the International Trade Office should revitalize the Agency's long overlooked role in assisting small businesses in gathering information and resources to enter international markets. It has been often stated in the Committee that very few small businesses even attempt to export. The Committee perceives a critical need to develop a system supplying the necessary information and assistance to small businesses for involvement in international trade. The addition of approximately 30 to 40 new employees to the Office is expected to address this perceived need.

The Committee expects the additional $3.5 million for the Office to be used to employ staff whose responsibilities will be to counsel

and assist small businesses in their efforts to comply with U.S. export regulations, obtain export financing, and gather needed market and trade information to facilitate exporting. The Administrator should keep the Committee informed on the expansion and activities of the Office.

The legislation directs the OIT to actively assist small businesses in the utilization and formation of export trading companies, export management companies and research and development pools authorized under Section 9 of the Small Business Act. These are all useful tools which have been underutilized by small businesses, undoubtedly in part because of the cloud which hung over SBA's future for the past two fiscal years because of the President's proposals to eliminate the Agency. Now that that proposal has been withdrawn, the Committee expects SBA to more actively market its services, including especially the new initiatives provided for in this legislation.

The Committee recognizes that the Department of Commerce has an Export Trading Company (ETC) facilitation service and does not expect the Administration to duplicate the functions of this office. However, the programs provided in this bill provide a useful opportunity for outreach in regard to the ETC program upon which the Committee expects the Administration to capitalize. The further utilization of Section 9 development pools also offers opportunities for joint ventures between unaffiliated small companies, and the Committee expects the Administration to encourage the development of such joint ventures.

B. SPECIFIC INITITATIVES

This Act requires the OIT, in conjunction with appropriate organizations, to identify and publish information on available foreign language translation services within the Federal government as well as those available through private sector or university-affiliated organizations. Such services should be geared to export use, including document translation, and trade missions.

The Act requires the OIT to work with the Department of Commerce in areas relating to information gathering, disseminating, and updating. Specifically, regarding the update of the Standard Industrial Classification codes, the Committee recognizes the primary role of DOC in this function and is aware that the Department is currently in the process of updating these codes. However, the Committee recognizes the impact and the importance of these codes in commercial activities involving small businesses. With this in mind, the Committee feels that an SBA role is appropriate in reviewing the codes, and that it would be appropriate for the Administration's Office of Advocacy to comment and make recommendations to the Secretary of Commerce.

The bill furthers directs the OIT to work in cooperation with the Export-Import Bank (EXIM) and other relevant organizations to promote export financing programs. The role of financing is crucial to small business exporting, and the Export-Import Bank and the Overseas Private Investment Corporation (OPIC) should be in a position to develop small business exporting potential. SBA and those involved in SBEAC's are expected to take advantage of training

programs offered by these financial organizations, facilitate access to their intermediaries, and actively market their programs to small business.

In testimony before the House Small Business Committee, Mr. Lionel H. Olmer, former Undersecretary of Commerce for International Trade, commented that the Export-Import Bank was underutilized by small business. One of the primary reasons for this fact is that there is not, currently, an effective marketing structure for the bank's programs to small business. The SBA and SBEAC initiatives in S. 1344 are intended to bridge this gap. However, the role of SBEAC's in promoting EXIM Bank or OPIC programs should be limited to disseminating information about such programs and advising small businesses. Involvement in the actual administration is not contemplated. The Committee also intends that SBA personnel involved in export promotion should have a working knowledge of existing export promotion and export financing programs and procedures.

The Office of International Trade, furthermore, shall explore ways to encourage private and public financial institutions to provide financing to small businesses for small shipments of goods. The Committee found that it is difficult for small businesses to obtain financing for small shipments because financial institutions are not willing to handle such small transactions.

C. TRADE ASSISTANCE DIVISION

The legislation directs OIT's involvement in counseling small businesses regarding trade assistance matters. The office is expected, among other things, to advise small businesses about the nature of trade remedy proceedings and refer businesses, as may be appropriate, to the Small Business Office of the U.S. Trade Representative or to private law firms, or to *pro bono* legal groups set up by local bar associations. The Committee is aware of the difficulties small businesses face in attempting to initiate and conduct trade remedy proceedings. The costs, in financial and manpower terms, are staggering. The Committee has taken this into consideration and assigned a realistic role for OIT in counseling small businesses which should supplement but not supplant the small business office of the Trade Representative. OIT is expected to work in cooperation with other Federal organizations, particularly the International Trade Commission, the USTR, and the Department of Commerce, to address the particular problems that small businesses face in seeking legitimate redress of grievance under existing trade remedy laws, and to report on an annual basis to Congress on its actions in this respect.

D. SPECIFIC REPORTS REQUIRED

The legislation requires that the Office of International Trade report to the House and Senate Committees on Small Business within six months on the viability of establishing an "Export Incentive Program," and on policy options for streamlining both the trade remedy proceedings and export licensing procedures for small firms. The first report is based on a recommendation from the White House Conference on Small Business and subsequent legisla-

tion introduced by Representative Ike Skelton and others, H.R. 1937. The report should focus on the possible effects of this bill were it enacted. The second and third reports were stimulated by recurring problems small business faces in the trade remedy and export licensing processes. These reports should look at both legislative and administrative means of streamlining these critical areas for small businesses.

E. EXPORT FINANCING

The Committee is concerned about the underutilization of existing export financing available to small business. The recent report of the National Commission on Jobs and Small Business noted that only one percent of the SBA's loans were used for exporting between 1983 and 1985, and that no export loans were made in 1986. The Committee is well aware of many of the problems that have plagued SBA for the past several years and would hope that this underutilization can be turned around by the new Administrator.

F. SMALL BUSINESS EXPORT ASSISTANCE CENTERS

Several witnesses who testified before the Committee underscored the problems of poor coordination and communication between agencies. There presently is no focal point or resource center to which a small business person can turn for answers to basic questions on aspects of international trade programs. In response, this legislation establishes "Small Business Export Assistance Centers."

The approach of the House Small Business Committee in drafting H.R. 1854, the Small Business Trade Competitiveness and Innovation Act, was to use existing networks, specifically the SBDC system, to market existing Federal and state export assistance programs. The Senate Small Business Committee agrees with this approach and has retained this central idea in S. 1344. The Small Business Development Center network is a nationwide, grassroots delivery system covering 43 states and provides management counseling and technical assistance services to small firms. SBDC's are designed to link Federal, State, local government and university resources with the private sector. They have generally proven successful in helping small businesses progress in the domestic market. As such, SBDC's are in the unique position to fulfill the mandate set forth in the Small Business Export Assistance Center section of the bill. It is therefore expected that SBDC's will be given serious consideration under this program. The Committee did not, however, structure the export assistance center program exclusively with SBDC's in mind. In some states where no SBDC currently operates, SBA may elect to carry out the export assistance program through its District Office or to fund other qualified applicants, such as economic development districts or state or local agencies.

These centers are designed to function as "one-stop shops" for small firms interested in exploring exporting. It is the intent of the Committee that applicants for such centers will help small business with all facets of international trade. Among other things, these centers can direct small businesses to the export and regulatory

programs operated by the Department of Commerce, the EXIM bank, the SBA and others. It is further intended that the Center personnel will do more than simply point interested small firms in the direction of assistance at other agencies. These Centers should work with the small business and the agencies involved until the international trade needs of the business have been addressed. These centers may serve as "trade ombudsman" in close cooperation with small firms and they should establish education and outreach programs.

In constructing the SBEAC program, the Committee has in mind successful international trade programs currently operated by several SBDC's in a number of states. These programs currently provide a variety of services ranging from education to actual marketing of small business goods and services overseas. It is envisioned that the centers created under this section will develop such multifaceted international trade programs.

To ensure that these centers fulfill those objectives, the bill established a specific timetable for establishing guidelines for the program. Given the success of SBDC's in operating similar programs, the Committee provides SBDC's a prominent role in this process. It is the Committee's intention that SBDC's and the SBA will work toward establishing guidelines which present the greatest likelihood of achieving the objectives of this Act. The Committee will closely monitor this procedure, paying particular attention to SBA's actions in relation to the review committee.

The Act authorizes additional appropriations of $5 million in FY 1988 and $10 million in FY 1989 and FY 1990 specifically for grants to SBEAC applicants. This level of funding is based on a matching fund requirement, whereby applicants are required to produce a 25 percent match in the first year of the program, 40 percent in the second year and 50 percent in the outlying years. Moreover, the bill requires a 25 percent *cash* match in each of the years. The purpose of this requirement is to fund only applicants who can demonstrate strong local support for the export initiative. Both the funding level and the funding formula also are premised on severe budgetary constraints.

The legislation also establishes a floor of $50,000 for applicants as the Committee realizes a certain minimum funding level is necessary to create an effective program. And while the legislation does not impose a ceiling on funding, it is hoped that the Administration will use its discretion to avoid excessive grants greater than $700,000, which would threaten the viability of the program. And while the legislation places no limitation on the dollar amount of each grant per state, it is further hoped that the Administrator will work to achieve the greatest degree of geographic distribution possible.

Applicants under this program should submit a detailed proposal when applying for grants. They should include timetables for the development of the program, for their proposal should demonstrate the ability to provide small businesses with the services outlined in the bill. To ensure such goals are met, the bill established an annual review process for the program. Again, the Committee anticipates that SBDC's will play an important role in the review process.

It is therefore the intent of the legislation that the Administrator give great weight to the recommendations of the advisory committee, in a timely manner, particularly the SBDC directors' contributions to those recommendations. Furthermore, the Committee will follow closely the Administrator's actions in relation to the review committee and its subsequent cooperation with the SBEAC/SBDC's.

G. CAPITAL FORMATION

The legislation increases the maximum permissible SBA loan guarantee for a Section 7(a) loan from the present level of $500,000 to $750,000. A similar increase is provided for economic development loans made by Certified Development Companies under Title V of the Small Business Investment Act of 1958. The Committee does not strictly limit these larger loans solely to export-related ventures, but the Committee intends that SBA use export potential as a criterion in making such loans.

The Committee remains concerned over the problems that many firms face in obtaining sufficient long-term capital at reasonable cost and recognizes that loan limits have not been increased in over ten years. However, the Committee members were concerned that provisions in similar legislation passed by the House increasing the loan limits to $1,000,000, without making a corresponding increase in the amount of loan guarantee authority, may crowd out smaller borrowers. The $750,000 figure is an effort to address both concerns. Furthermore, the Committee intends to report a major reauthorization measure in the next year, thus providing the Committee an opportunity to re-evaluate the program and the effect of these changes.

The House-passed bill, however, does not address the need for an increase in development company loans. Further, S. 1344 clarifies existing law by providing explicitly that a single small concern may be considered for funding under both Section 7(a) and Title V subject to the separate limitations contained in each section. Thus, a single firm could be eligible for as much as $1,500,000. Again, this increased combined limitation is intended to apply to export-related businesses.

H. SMALL BUSINESS INNOVATION RESEARCH

With the success of the Small Business Innovation Research program, it has been suggested that an expanded SBIR program would do much in further facilitating the technological development of small business. The present SBIR program, which was extended during the 99th Congress, has been widely recognized as a valuable source of new ideas, and integral in commercializing new and existing technologies. Suggestions for expansion of the program include increasing the percentage of the set-aside per agency and broadening the number of agencies included within the mandatory provisions of the Act. They warrant further study. The Committee believes that a variable schedule, adjusted to each individual agency, may be a viable alternative for future changes.

The Committee therefore directs the Administration to prepare a report on the feasibility of increasing the SBIR set-aside percentage

as well as allowing the allocation of a minor share of SBIR funding for administrative purposes and including within the SBIR program all agencies expending between $20,000,000 and $100,000,000 in extramural research annually. Currently, such agencies merely have a percentage goal and the Committee believes that the commercial potential of the research of these agencies might be more fully developed through full participation in the SBIR program. Therefore, the Committee believes that the issue of expanding the SBIR program should be given closer consideration by the Administration and Congress, and the legislation requires such a report to be undertaken.

I. NATIONAL CONFERENCE ON SMALL BUSINESS EXPORTS

In an effort to stimulate discussion and the exchange of ideas on further developing small business exports, the legislation instructs the Administration to hold a national conference on small business exporting. It is the Committee's belief that such a conference would have many beneficial results in the same vein as the White House Conference on Small Business. It is also the Committee's belief that in addition to the representatives from the various states who would attend, the Administration should make available experts in the fields of international trade and related fields.

J. SMALL BUSINESS REPRESENTATIVES IN TRADE NEGOTIATIONS

The Committee notes that the United States Trade Representative was invited to testify before the Subcommittee on April 29th, but elected not to attend. The Trade Representative indicated in declining to testify he made no distinction between large and small business in carrying out his duties. The Committee does not believe that the interests of small business have adequately been taken into account by the Trade Representative nor have these interests been adequately considered in other high-level international economic discussions.

To ensure that small business is given adequate attention in trade negotiations, the bill recommends that the Administrator of the SBA be appointed as a member of the Trade Policy Committee and that the Office of the U.S. Trade Representative consult with the SBA and its Office of Advocacy on trade policy formation and negotiation.

The bill further expresses the sense of the Congress that the Trade Representative's Office have a full-time staff assistant for small business trade issues.

It is the belief that the small business community would be well served by these changes. The Committee, therefore, strongly urges the Administration to follow these recommendations.

V. Matters To Be Discussed Under Senate Rules

A. COST OF LEGISLATION

Pursuant to paragraph 11(a) of Rule XXVI of the Standing Rules of the Senate, the Committee has requested and received an estimate of the budgetary impact of S. 1344 prepared by a Congressional Budget Office. CBO's report is as follows:

CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

1. Bill number: S. 1344.

2. Bill title: Small Business International Trade and Competition Enhancement Act.

3. Bill status: As ordered by the Senate Committee on Small Business, June 11, 1987.

4. Bill purpose: S. 1344 would make a number of changes in the trade programs administered by the Small Business Administration (SBA) and would increase the maximum SBA-guaranteed financing available to individual borrowers under certain SBA programs. It authorizes the appropriation of $3.5 million in 1988 for SBA administrative expenses and for SBA to conduct a National Conference on Small Business Exports. The bill would also establish centers to provide export assistance to small businesses, and authorizes the appropriation of $5 million in 1988, and $10 million in each of the years 1989 and 1990, for this purpose.

5. Estimated cost to the Federal Government: The estimated budget impact of the specific authorizations in this bill is shown in the following table.

[By fiscal year, in millions of dollars]

	1988	1989	1990	1991	1992
Authorization levels:					
SBA administrative expenses	3.5				
Export centers	5.0	10.0	10.0		
Total	8.5	10.0	10.0		
Estimated outlays	6.9	9.2	9.9	1.9	0.6

In addition, S. 1344 would increase from $500,000 to $750,000 the maximum SBA guarantee for certain business loans. The bill would also allow an applicant to receive the maximum financing available from two SBA programs, whereas current practice limits total borrowing by an applicant to $500,000. Thus, if this bill were enacted, it would be possible for a single borrower to finance a total of $1.5 million from SBA, or $1 million more than would currently be possible. Although the bill would not increase the existing 1988 authorization ceiling for any programs we expect that limited demand for the 7(a) guarantee program would leave room under the ceiling for about $400 million worth of additional loan guarantees in 1988. While the demand for larger loans and/or additional financing is difficult to quantify, it is possible that additional demand resulting from the changes specified in S. 1344 could be in the range of $50 million or more annually.

The level of defaults on loans guaranteed by SBA varies, depending upon the program and the general state of the economy. CBO estimates that about 20 percent of all loans guaranteed by SBA will require repurchase by the agency. It is not likely that fiscal year 1987 commitments would be affected by enactment of this bill. However, assuming 1988 appropriations are at program levels similar to those enacted in 1987, SBA could spend about $10 million more for loan defaults over the next ten years, less recoveries of

about $2 million, as a result of additional guaranteed loan demand in 1988. Depending upon Congressional action, similar costs could be incurred for SBA loan guarantees made in each year beyond 1988.

The costs of this bill fall within budget function 370.

Basis of estimate: For the purposes of this estimate, CBO assumes that this bill will be enacted by August 1, 1987. It also assumes that the amounts specifically authorized in S. 1344 will be appropriated prior to the beginning of each fiscal year. Outlays reflect historical spending patterns.

6. Financing mechanism: Spending for SBA programs is subject to appropriation action.

7. Estimated cost to State and local governments: None.

8. Estimate comparison: None.

9. Previous CBO estimate: On April 6, 1987, CBO prepared a cost estimate for H.R. 1854, as ordered reported by the House Committee on Small Business. H.R. 1854 authorized the appropriation of $5 million in 1988 for small business development centers. CBO estimated that reporting requirements and other administrative changes could cost SBA from $1 million to $3 million annually. H.R. 1854 also created a new industrial mortgage loan program, which we estimated could increase demand for SBA guaranteed loans by $400 million, or up to the ceiling authorized by current law.

10. Estimate prepared by: Mary Maginniss.

11. Estimate approved by: James L. Blum, Assistant Director for Budget Analysis.

B. REGULATORY IMPACT

Additionally, in compliance with Rule XXVI(11)(b) of the Standing Rules of the Senate, it is the Committee's belief that this bill will have no regulatory or privacy impact on the small business affected by the legislation.

C. CHANGES IN EXISTING LAW

In accordance with Rule XXVI(12), the Committee has determined, in order to expedite the business of the Senate, that it is unnecessary to include a comparative print of the statutory sections amended by this Act. The Committee has prepared, in lieu of the requirements of paragraph 12, a section by section analysis which follows the Committee vote.

D. COMMITTEE VOTE

Only one roll call vote was conducted in relation to S. 1344, and that was the motion to report the bill favorably. The Committee voted as follows:

YEAS (18)	NAYS (0)
Sasser	
Baucus	
Levin [1]	
Dixon [1]	
Boren	

Harkin [1]
Kerry
Mikulski [1]
Weicker
Boschwitz [1]
Rudman [1]
D'Amato [1]
Kasten
Pressler
Wallop
Bond
Karnes
Bumpers

[1] Indicates vote by proxy.

VI. Section-by-Section Analysis

SHORT TITLE

Section 1 designates the title of the act as the "Small Business International Trade and Competition Enhancement Act."

DECLARATION OF POLICY

Section 2 declares it to be the policy of the Congress that the Federal Government, through the Small Business Administration, should assist small businesses to increase their ability to compete in international markets.

CHANGES IN EXISTING SBA INTERNATIONAL TRADE OFFICE

Section 3 expands the mandate of the existing Office of International Trade within the SBA.

Subsection (a) requires SBA to work in close cooperation with other relevant Federal agencies, Small Business Export Assistance Centers and Small Business Development Centers (SBDC) engaged in export promotion efforts, regional and local SBA offices, the small business community, and relevant state and local export promotion programs to assist in developing a distribution network for existing trade promotion, trade finance, trade adjustment, and trade data collection programs through use of the SBA regional and local offices, the SBDC network and the Small Business Export Assistance network. The section requires SBA to assist in the aggressive marketing of these programs and the dissemination of marketing information, including computerized marketing data, to the small business community.

Subsection (b) requires the Office to promote sales opportunities for small business goods and services abroad by—

(1) Working in cooperation with relevant agencies, regional and local Administration offices, the Small Business Development Center network, and State programs, to develop a mechanism for identifying sub-sectors of the small business community with strong export potential; identifying areas of demand in foreign markets; assisting in increasing international marketing by disseminating relevant information regarding market

leads, goods and services produced by small businesses and linking potential sellers and buyers;

(2) actively assisting small businesses in the formation of export trading companies, export management companies and research and development pools authorized under Section 9 of the Small Business Act;

(3) identify existing foreign language translation services available through the federal agencies and the private sector;

(4) working closely with the Department of Commerce and other relevant agencies to increase access to data collection programs by small business so they are of greater utility to small business; improve the accessibility of existing export promotion programs for small business; increase the accessibility of the Export Trading Company facilitation service; and make recommendations regarding revision of the SIC code to encompass industries currently overlooked and to create SIC codes for export trading companies and export management companies.

Subsection (c) requires the Office of International Trade to:

(1) develop a program in cooperation with the Export-Import Bank through which regional and district offices of the SBA, Export Assistance Centers and the SBDC's could help disseminate information regarding existing SBA and EXIM Bank export financing programs, market those programs to the small business community, assist in the development of financial intermediaries and facilitate the access of those intermediaries to existing financing programs, and increase small business access to export financing,

(2) requires the Office of International Trade to counsel small businesses with respect to trade remedy proceedings and work in cooperation with the Department of Commerce, the Office of the United States Trade Representative (USTR), and the International Trade Commission (ITC), to increase access to trade remedy proceedings for small businesses,

(3) report to the Senate and House Committee on Small Business, annually, regarding its implementation of the requirements under this section.

AUTHORIZATION; OFFICE OF INTERNATIONAL TRADE

Section 4 authorizes for Fiscal Year 1988, $3.5 million to carry out the provisions of the Act concerning the Office of International Trade.

SPECIFIC REPORTS REQUIRED

Section 5 requires the Office of International Trade to undertake certain studies and report to the Senate and House Committee on Small Business within six months after enactment of the legislation with specific recommendations.

EXPORT FINANCING PROVIDED BY THE SMALL BUSINESS ADMINISTRATION

Section 6 amends the existing export financing provision under the 7(a) loan and loan guarantee program to establish that the Administration:

(1) may provide extensions and revolving lines of credit for export purposes and pre-export financing to small business export trading companies and small business export management companies, as well as individual small businesses for a period or periods not exceeding eighteen months; and

(2) when considering loan or guarantee applications, shall give weight to export-related recommendations.

SMALL BUSINESS EXPORT ASSISTANCE CENTERS

Section 7. This section gives Small Business Development Centers an explicit mandate to develop and implement export promotion and technology transfer programs and provides limited additional funding for these purposes.

Subsection (a) states that for the programs authorized by Section 7 there is authorized $5 million for Fiscal Year 1988, $10 million in Fiscal Years 1989 and 1990.

Subsection (b) amends the mandate under the existing SBDC program to develop an Information Service Delivery Network which will:

(1) provide management and technical assistance regarding small business participation in international markets,

(2) work in close cooperation with the Administration's regional and local offices, the Department of Commerce and other Federal, State and local agencies, to serve as an active information dissemination and service delivery clearinghouse for existing trade promotion, trade finance, trade adjustment and trade data collection programs of particular utility to small business. Existing SBDC's which receive export assistance funding shall not establish separate Small Business Export Assistance Centers if the provisions of Section 24 of the Act can be effectively implemented within the existing SBDC network.

(3) Any applicant which is funded by the Administration as an SBDC may apply for an additional funding agreement for new or increased activities to assist in facilitating small business participation in international trade, in technology transfer and in information dissemination. Such SBDC's shall comply with all of the provisions of Section 21 of the Small Business Act, except the provisions governing the matching funding requirements, which are redesignated in the following Subsection (c)(2).

Subsection (c) The Administration is authorized to enter into funding agreements with any eligible entity to assist in establishing Small Business Export Assistance Centers. Such applicants entering into funding agreements shall assist small businesses in international trade and shall:

(1) put emphasis on encouraging small businesses to participate in international trade, providing small businesses with

technology transfers which will promote increased productivity and providing assistance to small businesses in marketing goods or services in foreign markets. Any applicant that already maintains facilities which would be suitable for carrying out the provisions of this section shall use such existing facilities.

(2) The Administration shall require that as a condition to any funding agreement entered into under this subsection, the applicant would be required to provide matching funds of 25 percent from outside sources in the first year, 40 percent in the second year and 50 percent in each outlay year. Such additional amounts shall include an amount in cash equal to at least 25 percent.

Subsection (d) mandates that an advisory committee shall be established by the SBA Administrator, consisting of three Administration representatives and two SBDC representatives with the chairperson designated by the Administrator from the membership of the committee. Within 45 days of its establishment, the advisory committee shall recommend guidelines for evaluations of proposals to be submitted under this section. The Administrator shall publish final guidelines within 30 days after receiving the recommendations of the advisory committee. Applicants for funding agreements shall submit proposals for funding to the Administrator who, based on the final guidelines published by the Administrator, would respond and approve funding to worthy applications.

Subsection (e) provides that in states where no application for a Small Business Export Assistance Center is funded, the Administration shall establish mechanisms through its regional and local offices for carrying out such activities.

Subsection (f) states that the SBA shall develop, cooperatively with Small Business Export Assistance Centers and other appropriate agencies, an information sharing system which will allow Small Business Export Assistance Centers to exchange central to technology transfer. The Administration shall present its proposal to implement such an information sharing system to Congress within six months of the date of enactment of this Act.

CAPITAL FORMATION

Section 8 amends the 7(a) loan and loan guarantee program by increasing the SBA loan guarantee limit from $500,000 to $750,000. Section 504 economic development loan limits are similarly increased. The section clarifies existing law to provide that maximum funding under these two programs may be combined for a total of $1,500,000 in financing.

SMALL BUSINESS INNOVATION RESEARCH

Section 9 requires the Administrator of SBA to report to the Senate and House Committees within six months after enactment of this legislation as to the advisability of amending the Small Business Innovation Research (SBIR) program to:

(1) Increase each agency's share of R&D expenditures devoted to SBIR by 0.25 percent per year, until it is 3 percent of the total extramural R&D funds, and targeting a portion of the in-

crement at products with commercialization and/or export potential.

(2) Make the SBIR program permanent with a formal congressional review every ten years, beginning in 1993.

(3) Allocated a modest but appropriate share of each agency's SBIR fund for administrative purposes for effective management, quality maintenance, and the elimination of program delays.

(4) Determine annually that each agency is clearly in full compliance with the law and that SBIR program funding is not being accompanied by parallel reductions in other small business programs.

(5) Include within the Small Business Innovation and Research program all agencies expending between $20,000,000 and $100,000,000 in extramural research and development funds annually.

NATIONAL CONFERENCE ON SMALL BUSINESS EXPORTS

Section 10 requires the Administration to conduct a National Conference on Small Business Exports within one year of enactment in order to develop recommendations designed to stimulate exports from small companies.

SENSE OF THE CONGRESS ON TRADE NEGOTIATIONS

Section 11 states the sense of the Congress that the interests of the small business community have not been adequately represented in trade policy formulation and in trade negotiations and it urges that the Administrator of the SBA should be appointed as a member of the Trade Policy Committee and also that the United States Trade Representative should consult with the Small Business Administration and its Office of Advocacy in trade policy formation and in trade negotiations. Further, it recommends that the USTR would better serve the needs of the small business community with full-time staff assistance with responsibilities for small business trade issues.

PROMULGATION OF REGULATIONS

Section 12 provides for the Administration to promulgate final regulations to carry out the provisions of Section 6 within six months of the date of enactment.

EFFECTIVE DATE

Section 13 states that the Small Business International Trade and Competition Enhancement Act of 1987 shall become effective on the date of enactment.

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